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Store Loyalty

- Hypermarket Case Study in Croatia -

Ivan-Damir Anić*

Sonja Radas**

Abstract

This paper explores relative importance of satisfaction and demographic factors in building store loyalty behaviour. The model was tested with data collected from a consumer survey, carried out in the high/low Croatian hypermarket setting. Data was analyzed using descriptive statistics, simple and multiple regression analysis. In general, research results support proposed framework. Conative loyalty was positively driven by satisfaction with shopping experience, household's size and age. Females exhibited higher conative loyalty than males, and "near shoppers" exhibited higher conative loyalty than "distant shoppers". Contrary to expectations, income did not predict conative loyalty behaviour. A further important finding of this study is that there is a positive link between conative and action loyalty. For retailers, the importance of the model presented is in predicting consumer purchasing behaviour and using this information to design such retailing strategies that will enhance satisfaction, conative and action store loyalty, and contribute to increased sales revenues.

Keywords: satisfaction, demographic factors, store loyalty, hypermarket retailer

JEL classification: L810

* Ivan-Damir Anić, Research associate, The Institute of Economics, Zagreb.

** Sonja Radas, Research associate, The Institute of Economics, Zagreb.

1 Introduction

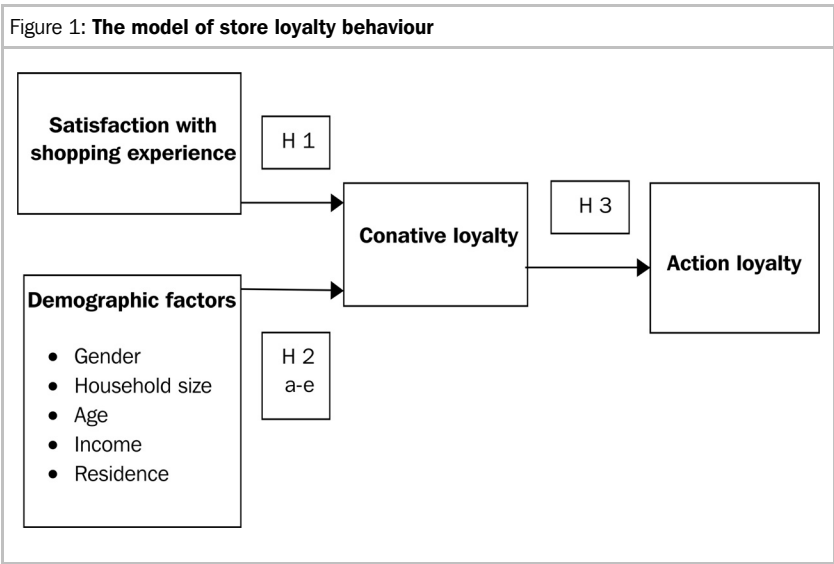
Store loyalty is the single most important factor in building retail success and store longevity. In general, loyalty was shown to generate increased profits through enhanced revenues, and reduced costs to acquire customers and serve customers familiar with a firm's services as well (Hallowell, 1996). In highly competitive food retailing industry with many choices and low switching costs, it is very difficult for retailers to attract and retain a loyal customer base that would regularly frequent their stores and spend there as much money as possible. Retailers are very interested to identify factors that make for store loyalty and learn how to use this knowledge to increase customer spending in the long run and improve store performance.

Although the concept of store loyalty has been the subject of research for the past few decades, how customers develop loyalty to a particular store and how that loyalty can be maintained are still open questions. Several factors were shown to influence store loyalty, including perception of store attributes (LeHew, Burgess and Wesley, 2002; Sirohi, McLaughlin and Witting, 1998), satisfaction (Stoel, Wickliffe and Lee, 2004; Sivadas and Baker-Previtt, 2000), and demographic characteristics (East, Harris, Willson and Lomax, 1995; Enis and Paul, 1970; Tate, 1961). Although marketers have a relatively firm grasp of the impacts of those factors, the relationships reported in the cited literature are not always so clear. Explanations of store loyalty also need to take account of differences between countries and the evolution of retailing in recent years (East, Harris, Willson and Lomax, 1995). Since very little is known about store loyalty issues in the Croatian setting, more research is needed to help managers increase store loyalty and improve store performance.

This paper explores the impacts of satisfaction and demographic factors on store loyalty in the Croatian hypermarket setting. To operationalize the concept of loyalty we follow Oliver's (1997) four stage model which posits that loyalty consists of belief, affect, intention (or conative loyalty) and action. Specifically, the study focuses on the following questions: (1) What is the relationship between satisfaction and conative loyalty? (2) How are various demographic factors related

conative loyalty is a predictor of action loyalty and it is driven by satisfaction and demographic characteristics.

Store loyalty can be defined in multiple ways. It includes consumer attitudes, purchase intentions and actual purchasing behaviour. Oliver's model of loyalty behaviour is the most relevant model tested in the literature. The model consists of four stages, including cognitive loyalty¹, affective loyalty, conative loyalty and action loyalty (Sawmong and Omar, 2004; Sivadas and Baker-Previtt, 2000; Oliver, 1997).



Affective loyalty (satisfaction) involves consumers' emotions, i.e. personal feelings of pleasure or dissatisfaction with shopping experience. It creates an individual's attachment to a product or store, a feeling that is likely to lead to consumer purchase intentions (conative loyalty). Conative loyalty can be defined as the consumer's readiness to recommend a store to a friend (positive word-of-mouth

¹ Cognitive loyalty is directed towards the shoppers' propensity to switch for buying things from a store where they used to buy to a store that offers better prices, better quality and value for money.

statement²) and consumer intention to repurchase in this store again. If positive, purchase intentions should trigger consumer response behaviour on a fairly habitual basis (action loyalty). Action loyalty might be expressed in terms of frequency of store visit, amount of money spent or the percentage of the customer's purchases made from this store and retailer („share of wallet“). In present paper, affective, conative and action loyalty are employed to obtain a comprehensive assessment of loyalty pattern in the Croatian hypermarket setting.

We improve the model of loyalty behaviour by including the associations between various demographic variables (gender, household size, age, income and shopper's residence) and conative loyalty. Some studies suggest that demographic characteristics do explain loyalty behaviour (Homburg and Giering, 2001; Tate, 1961), although the impact of demographic factors on loyalty is not so clear (Coner and Gungor, 2002; Enis and Paul, 1970). Based on literature review, a series of hypotheses are developed on linkages between both antecedent variables and store loyalty behaviour.

The relationships between satisfaction and store loyalty behaviour (H1)

Past research suggests that customer satisfaction has a positive impact on post-purchase attitudes and purchase intentions (Huddleston, Whipple and VanAuken 2004; Sivadas and Baker-Previtt, 2000; Hallowell, 1996), although some studies did not find a significant relationship between satisfaction and repatronage intention in a mall setting (Stoel, Wickliffe and Lee, 2004; Dawson and Ridgway, 1990). Customer satisfaction is an outcome of purchase experience, i.e. a postconsumption evaluation of the degree to which a store or product meets or exceeds customer expectations in terms of rewards and costs.³ Positive customer perceptions of store attributes result in enhanced customer satisfaction. Satisfaction elicits emotions, which in turn leads to positive loyalty intentions.

² Word-of-mouth reputation is developed by loyal customers who refer others to the store and tell them about positive shopping experience. This usually brings more people in the store and expand the current customer base.

³ In marketing literature, the concept of satisfaction is related to disconfirmation paradigm which holds that satisfaction is related to the size and direction of the disconfirmation experience, where disconfirmation is related to the person's initial expectations. An individual's expectations are confirmed when a product performs as expected; negatively disconfirmed when the product performs more poorly than expected, and positively disconfirmed when the product performs better than expected (Churchill and Suprenant, 1982). Customer satisfaction results when a

Satisfied customers are likely to become retained customers, while dissatisfied customers are sooner or later likely to switch to competitors. In the long run, retained customers produce a higher annual revenue and margin per customer than do lost or new customers (Best, 2004). As suggested by Sivadas and Baker-Previtt (2000) there is a positive relationship between affective loyalty (satisfaction) and conative loyalty. If satisfied with purchases at one particular store, consumers are likely to have positive attitudes toward that store. This leads to consumers' commitments to recommend a store to friends and to return to the store for either similar or other purchase tasks. Therefore, it can be expected that:

H1: Satisfaction with shopping experience will be related positively to conative loyalty.

The relationships between demographic variables and store loyalty behaviour (H2a-e)

The impact of gender on buying behavior has attracted some research interest. In relation to gender differences in purchasing behaviour several issues have been examined, including the link between gender and time spent on shopping (McDonald, 1994; Arndt and Gronmo, 1977), and gender's role in unplanned purchases (Granbois 1968; Kollat and Willett, 1967). Gender is widely acknowledged as a moderator variable in marketing, and has recently been investigated as a moderator between satisfaction and conative loyalty by Evanschitzky and Wunderlich (2006). Although they find no significant moderating impact of gender, here we investigate not moderating but direct link between gender and conative loyalty. Men tend to be less involved in shopping than women. The conventional wisdom on male shopper is that they do not like shopping, looking at anything they had not intended to buy and asking where products are placed. It's a struggle for them just to be patient company for a woman while she shops. On the other hand, women like shopping and often have the primary responsibility for the supply of grocery goods, although as women's roles in households change so does their shopping behavior. They tend to spend more time shopping, make more purchases and purchase a higher percentage of products on an unplanned basis. Furthermore, males and females differ with respect to decision-making process and emotional expression in purchasing behaviour. As

subject's expectations are met or exceeded (Levy and Weitz, 2004), and if a subject's expectations are negatively disconfirmed, dissatisfaction arises.

their reaction to satisfaction and loyalty (Walsh and Mitchell, 2005). In buying decision older people are likely to focus on their experience-based evaluation of the product's key features, which suggests that they might exhibit higher loyalty as compared to other consumer age groups. On the other hand, younger people do not rely that strongly on their satisfaction with the product itself but seem to base their buying decision primarily on information provided to them by the sales personnel. (Homburg and Giering, 2001). Further, Evanschitzky and Wunderlich (2006) show that age is a significant moderating factor between satisfaction and conative loyalty. More precisely, for older customers the link between satisfaction and intent is stronger. Based on these previous findings, we hypothesise the following:

H2c: Age of respondents will be related positively to conative loyalty.

Income⁴ is a demographic variable that has an important effect on consumption and the volume of retail sales. If people have more income, they tend to spend more. This leads to higher sales and more profits for retailer (Hasty and Reardon, 1997). Several studies suggest that there is a link between income and loyalty (Homburg and Giering, 2001⁵; Tate, 1961), although some studies did not find any associations between these two variables (East, Harris, Wilson and Lomax , 1995). Tate (1961) suggests that one-store shopper were low-income families, while the very disloyal households had a strong tendency to be middle-income or upper-income families. This can be partly explained by the fact that the income of a person has a strong impact on choice decisions (Zeithaml, 1985). In a general sense, it is assumed that people with higher income have achieved a higher level of education (Farley, 1964). Thus, they usually engage more in information gathering and processing prior to the decision process (Schaninger and Sciglimpaglia, 1981), and use more information prior to decision making, while less educated people rely more on fewer information cues (Capon and Burke, 1980; Claxton et al., 1974). Since better educated people feel more comfortable when dealing with and relying on new information (Homburg and Giering, 2001), they are more likely to base their choice on the evaluation of the information given to them. Higher level

⁴ Household's income refers to the amount of money a household receives from all sources.

⁵ The study of Homburg and Giering (2001) indicated that income was a moderator of linkages between satisfaction and brand loyalty in automotive industry and durables, implying the direct relationships.

of information processing capabilities have an impact on satisfaction, generating lower emotional attachment to a store. We might expect that

H2d: Household income will be related negatively to conative loyalty.

The effect of location on store choice has been much studied, but how the distance or travel time to store interacts with loyalty is less clear. It seems possible that when a store is very accessible compared to others it will take a higher proportion of expenditure, and thus relative accessibility might explain a part of loyalty, although not significant association between store loyalty and access time or distance travelled was found in the study of East, Harris and Lomax (1995). Carman (1970) found some support for that. Tate (1961) found that loyalty to a single store was most common in rural areas and explained this partly as the result of limited access to other stores. We hypothesize the following:

H2e: As compared to distant shoppers, near shoppers are more likely to exhibit higher level of conative loyalty.

The relationships between conative loyalty and action loyalty (H3)

The relationship between conative and action loyalty is well-documented in the literature, although some works indicate that repeat purchasing behaviour might not be quite stable over the long-term period. Conative loyalty was shown to be a strong predictor of frequency of store visit of department store shoppers (Sivadas and Baker-Prewitt, 2000). Customers who are loyal to a certain retail establishment tend to give one particular store the priority in grocery shopping, and are likely to spend more money in the primary store than the less loyal shoppers (Tate, 1961). In one study (East, Harris and Lomax, 1995), highly loyal customers spent on average about 32 per cent more than the rest of shoppers. Finally, the store could expect to receive proportionally more sales revenue from loyal customers than from less loyal customers (Enis and Paul, 1970). Accordingly we propose the following:

H3: Conative loyalty will have a positive impact on action loyalty.

3 Methodology

3.1 Consumer Survey and Sample Profile

Data for this study was obtained from the consumer survey. The survey was carried out in a hypermarket retailer in Croatia during a 6-day period from December 7 to 13, 2005. Entry and exit interviews were conducted in order to collect data. Interviewers approached customers before the entry to a store and asked them to participate in the survey and fill in a set of questions related to their purchasing plans. After the respondents had been done with shopping, they were asked to fill in the survey containing the questions on their grocery shopping habits, satisfaction with shopping experience, repatronage intentions, and actual purchases made. Demographic data was obtained from shoppers. The interviews required less than 15 minutes to complete. Upon completion of an interview, the interviewer immediately selected the next customer approaching the store. A sample of 300 shoppers was obtained. Summary statistics on sampled shoppers is presented in Table 1.

Table 1: Summary statistics on sampled shoppers, N = 300	
Shopper profile	Value
1. Demographic variables	
1.1. Female (%)	58.11
1.2. Average age (average years)	35 – 45
1.3. Average household income (average HRK)	6,000 – 9,000
1.4. Household size (average)	3.17
1.5. Near shoppers (%)	68.60
1.6. Distant shoppers (%)	31.40
2. Frequency of shopping	
2.1. Total number of major shopping trips in a month	1
2.2. Total number of fill-in shopping trips per week	4-5
3. Total grocery expenditures/month (in HRK)	2,411.38

Respondents were 58.11 per cent females and 41.89 per cent males. The average consumers' age was between 35 and 45 years. The respondents reported a household's monthly income ranging from HRK 6,000 to 9,000, and the average household size of 3 members. There were 69 percent "near shoppers" who need less

than 15 minutes to get to the store, and 31 percent “distant” shoppers who need more than 15 minutes to get to the store.

Monthly grocery budget averaged HRK 2,411.38, of which 1,198.63 were spent for major shopping trips and HRK 1,212.74 for fill-in shopping trips. Although respondents usually visit several different retailers during their shopping trips, they spend high percentage of their grocery budget at analyzed hypermarket store (58.37 percent).

3.2 Measurement and Data Analysis

Variable definitions and measurements are presented in Table 2. A review of relevant literature was used to develop measures for variables applied in this study, which was then supplemented and adapted to the study context.

Table 2: **Variable definitions and measurements, N = 300**

Variable name	Details of measures
Action loyalty	Action loyalty was determined as the percentage of total expenditures made at analyzed hypermarket store ($\text{Percent expenditure at hypermarket (\%)} = (\text{grocery expenditures at hypermarket in HRK} / \text{total monthly grocery expenditures in HRK}) \times 100$); Average action loyalty = 56.87.
Conative loyalty	Conative loyalty was determined by asking respondents: (a) How likely is that you would you continue shopping at this store? (b) How likely is that you would you use this store for more of your grocery needs in the next twelve months? (c) How likely is that you would recommend this store to a friend? Statements were rated on a 1 to 7 scale, where 1=not at all likely, to 7=100% likely. The reliability of the scale (cronbach alpha) was 0.83. Average conative loyalty = 5.73.
Satisfaction with shopping experience	To capture shoppers' satisfaction with shopping experience we asked the respondents how satisfied they were with (1) shopping in hypermarket in general, (2) the speed of checkout, (3) the quality of time spent in this store and (4) the shopping efficiency in the store. Statements were rated on a 1 to 7 scale, where 1 = very dissatisfied, 2 = moderately dissatisfied, 3 = slightly dissatisfied, 4 = neutral satisfied, 5 = slightly satisfied, 6 = moderately satisfied, 7 = very satisfied. The reliability of the scale (cronbach alpha) was 0.87. Average satisfaction with shopping experience = 6.08
Demographic variables	<p>We asked the respondents:</p> <p>(a) How many members are there in your family?</p> <p>(b) Gender of the respondent (1=female; 2=male)</p> <p>(c) Age of the respondent (1= less than 25; 2= 25-35; 3= 35-45; 4= 45-55; 5= 55-65; 6= 65 and more)</p> <p>(d) Household's income (1= less than 3000; 2= 3000-60000; 3= 6000-9000; 4= 9000-12000; 5=12000-15000; 6=15000 and more)</p> <p>(e) Residence of the respondent was determined as the distance between store and home locations, where 1 = distant shopper are those shoppers who needed more than 15 minutes to get to the store, and 2 = near shoppers who needed less than 15 minutes to get to the store.</p>

In our hypermarket case, sampled shoppers form a base of relatively loyal shoppers. As data reveals, they were above-average satisfied with shopping experience (mean average of 6.08). Conative loyalty intention was on average 5.73, and action loyalty indicates a high percentage of grocery expenditures (56.87 percent) that was spent at this hypermarket store in an average month.

A series of regressions were performed to test the hypotheses. Simple regression model was used to examine the relationships between conative (independent variable) and action loyalty (dependent variable), and between satisfaction (independent variable) and conative loyalty (dependent variable). Finally, a multiple regression analysis was conducted to test the associations between demographic variables and conative loyalty.

4 Results

The analysis provides an understanding of factors driving store loyalty behaviour. The results are presented in terms of the impacts of demographic characteristics and satisfaction on conative and action loyalty.

The relationships between satisfaction and conative loyalty.

A simple regression analysis was performed to test the hypothesis that satisfaction would be positively associated with conative loyalty. As shown in Table 3, satisfaction significantly predict conative loyalty ($p = 0.002$).

Table 3: Regression results: the relationships between satisfaction (independent variable) and conative loyalty (dependent variable)			
	Regression coefficients	t	p-level
Intercept	1.139	3.061	0.002
Satisfaction	0.756	12.549	0.000

Notes: Adjusted $R^2=0.343$, $F(1.298) = 157.22$. The regression model explains 34 percent of the variations occurring in conative loyalty.

Research results indicate that household size and age were positively related to conative loyalty ($\beta = 0.156$ and $\beta = 0.35$ respectively). Therefore, hypotheses H2b and H2c are supported. The larger the household size is, the higher the conative loyalty will be. Similarly, older shoppers groups exhibit higher conative loyalty than younger ones.

The relationships between conative loyalty and action loyalty

Table 5: **Regression results: the relationships between conative loyalty (independent variable) and action loyalty (dependent variable)**

Notes: Adjusted $R^2=0.294$, $F(1,268) = 113.19$.

5

The purpose of this study was to test the loyalty model in the Croatian hypermarket setting. Specifically, it examined the impacts of satisfaction with shopping experience and demographic factors on conative loyalty, and the association between conative and action loyalty.

In general the results of our study support the proposed model of store loyalty behaviour. Research findings indicate that satisfaction with shopping experience was positively related to conative loyalty, supporting the hypothesis H1. If customers are satisfied with shopping experience, they will repurchase in this store again, and generate positive word-of-mouth. With respect to demographic factors, proposed hypotheses were supported (H2a, H2b, H2c, H2e, except H2d). Accordingly, females exhibited higher conative loyalty than men, and “near” shoppers were shown to be more loyal than “distant” shoppers. Household size and age were positively related to conative loyalty. By supporting the final H3 hypothesis, the model show that positive purchase intentions (conative loyalty) are highly likely to translate into response habitual behaviour, resulting in higher hypermarket percent expenditures.

Several managerial implications might be derived from the findings of this study. In order to enhance customers "share of wallet" and thus increase store sales, primary goal of retailers should be to develop a base of loyal customers who patronize their stores frequently, and are less likely to visit other competitor's stores. In order to sustain the loyalty, retailers have to enhance and maintain high level of customer satisfaction by delivering store attributes that consumer value and want the most. According to the model, gains in customer satisfaction will translate into higher loyalty intention, will generate positive word-of-mouth recommendation and finally lead to increased customer's „share of wallet“. Customer relationship management (CRM) is very useful in providing more value to their best customers. CRM process includes data collection and analysis process as well as the implementation of CRM program. Tools that can be used in retaining best customers include frequent shopper cards, special customer services, service personalisation and developing a sense of community among shoppers

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